

Nova Scotia Department of Energy

Annual Accountability Report For The Fiscal Year 2002-2003

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1.0 Accountability Statement

The accountability report of the Department of Energy for the year ended March 31, 2003, is prepared pursuant to the Provincial Finance Act and government policies and guidelines. These authorities require the reporting of outcomes against the Department of Energy business plan information for the fiscal year 2002-03. The reporting of department outcomes necessarily includes estimates, judgments and opinions by department management.

We acknowledge that this accountability report is the responsibility of the Department of Energy management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in department business plans for the year.

Minister

Deputy Minister

2.0 Message from the Minister

In June 2002, the Nova Scotia Petroleum Directorate and the Energy Utilization section of the Department of Natural Resources were combined to form the new Department of Energy. The Department was established to create a world class energy sector in Nova Scotia, make the most of the financial, economic and social benefits of our offshore and improve our environment.

With the Energy Strategy as its guide, the Department of Energy achieved a number of successes in the 2002/03 fiscal year, many of which were reported in the Energy Strategy Report Card, released in February 2003.

Building our energy industry and making the most of the opportunities in our offshore continue to be priorities for the Department of Energy. Balanced with our commitment to improving our environment and informing Nova Scotians, the department of Energy continues to play a key role in developing a vibrant and prosperous Nova Scotia.

I am pleased to submit the Accountability Report for the Nova Scotia Department of Energy for the period 2002-03.

The Honourable Cecil P. Clarke
Minister of Energy

2.1 Message from the Deputy Minister

The 2002-03 fiscal year brought the creation of the Department of Energy. While the Department has only been operational for nine months, significant progress has been made on a number of key priorities set out in the department's first business plan. Our work on regulatory issues, sustaining exploration activities and developing a long-term, sustainable energy industry in Nova Scotia will help us build a foundation that will support economic growth and produce a variety of benefits for Nova Scotians.

The Department of Energy is working with Nova Scotians to increase their capacity to meet the challenges in the energy sector, whether those challenges are in building the oil and gas industry, understanding more about our energy consumption or obtaining the skills required to become full participants in the new opportunities that arise.

The 2002-03 Accountability Report provides an account of the efforts the Department of Energy has undertaken on behalf of Nova Scotians. It is with pleasure that I submit this report on behalf of the department and its staff.

Dan L. McFadyen
Deputy Minister of Energy

3.0 Introduction

In 2002-03 the Department of Energy has been guided by two documents - the 2002-03 Business Plan and the Nova Scotia Energy Strategy. Together, these documents provided strategic direction to the department and helped to identify key priorities in both the short and long term.

This accountability report is based on the goals and priorities set out in both the 2002-03 Business Plan and the Energy Strategy.

4.0 Department Progress and Accomplishments

4.1 Core Business Function - develop policy, legislation and regulations:

The Department is directly responsible for developing and recommending government policy legislation and regulations in a number of areas including onshore and offshore oil and gas exploration and development activities, gas distribution, the management of onshore petroleum rights, the royalties paid by oil and gas producers, the achievement of local benefits, the Province's activities related to climate change and the efficient use of all energy resources.

2002-03 Accomplishments

- The department participated in the November 2002 Atlantic Energy Roundtable, a Halifax meeting of federal and provincial ministers and industry representatives to address issues of importance to Atlantic Canada's oil and gas industry. The collaborative follow-up processes between Nova Scotia, Newfoundland and Labrador, the federal government and industry representatives is working towards identifying and taking action to make our regulatory process more efficient and effective and to realize greater industrial development opportunities in Atlantic Canada.. Advice is also being sought from regulatory authorities. A full report is expected at a second roundtable in fall 2003.

- A report prepared for the Department of Finance confirmed that more than \$5 billion on offshore energy development was spent in the province between 1990 and 2001. The Department of Energy is working with industry representatives to build on this study and provide regular reporting on economic impacts of offshore exploration, development, and production.
- The revisions to the *Gas Distribution Act* improved efficiency through such changes as eliminating ministerial approval of franchise amendments and permitting the use of interim transportation tariffs.
- Revisions to the *Pipeline Act* provide greater certainty for industry and security for Nova Scotians.
- In May 2002, the Electricity Marketplace Governance Committee was formed to make recommendations on how competition can be introduced into Nova Scotia's electricity market. The EMGC is made up of representatives from Nova Scotia Power, municipal utilities, and consumer and renewable energy representatives. The committee released its first interim report addressing issues of access to Nova Scotia Power's transmission infrastructure and a final report is expected in 2003.
- To assist with the transition to natural gas, the Nova Scotia government allocated \$14 million from the Gas Market Development Fund to help individual Nova Scotians, small businesses, and institutions use natural gas. The remaining \$6 million of the \$20-million fund, which is financed by gas producers in Nova Scotia, will be used to extend the pipeline system beyond franchise areas approved by the Nova Scotia Utility and Review Board and for customers already using natural gas in Nova Scotia.

- The department has been working with the province of Newfoundland and Labrador and the federal government to provide a coordinated approach to new legislation that will provide offshore workers with the same kind of occupational health and safety legislation as those working on land.

4.2 Core Business Function - administer contracts, agreements, legislation and regulations:

The Department administers a wide variety of provincial policies and agreements in various forms such as: Offshore Strategic Energy Agreements, royalty agreements with producers, national and international agreements related to climate change, benefits agreements signed pursuant to provincial legislation, the awarding of onshore petroleum and storage rights.

2002-03 Accomplishments

- The new *Underground Hydrocarbon Storage Act*, along with a Code of Practice, provides clear direction on the regulation of development and use of underground reservoirs to help balance the supply and demand for natural gas and gas liquids.
- An important part of the economic impact of Nova Scotia's oil and gas industry is the royalties collected through the production of the resources. Royalties from the Sable Offshore Energy Project are estimated at between \$1.6 and \$2.3 billion over the life of the project. The department regularly reports on projected royalty revenues and has developed a generic royalty regime for future projects.

4.3 Core Business Function 3 - liaising with other government departments, other levels of government, the private sector and the citizens of Nova Scotia:

In order to effectively carry out its mandate, the Department maintains business relationships with other agencies and departments in Nova Scotia, municipalities, the federal government, US federal and state agencies, energy companies throughout the world, industry and trade organizations and individual citizens of the Province.

2002-03 Accomplishments

- In 2002 the Cape Breton Review Commissioner concluded hearings into public concerns over exploration plans offshore Cape Breton. The review had been ordered as a joint directive by the provincial and federal ministers responsible for the Canada/Nova Scotia Offshore Petroleum Board (CNSPOB). The two key recommendations from the review were:
 - the establishment of an ad hoc working group to provide further stakeholder advice to the CNSOPB on exploration proposals before proceeding to the next stage of the regulatory process
 - the establishment of a process to pull together the scientific knowledge about the impacts of the proposed activities and measures to mitigate them

The Department of Energy supported both processes. It helped non-governmental organizations (NGOs), including environmental groups, participate fully in the science review process by providing a total of \$5,000 in honorariums to three NGO participants. The department also actively participated on the ad hoc working group.

- The Department of Energy also is an active participant in the CNSOPB Fisheries and Environment Advisory Committee (FEAC) and in the Department of Fisheries and Oceans initiative in ocean management planning called the Eastern Scotian Shelf Integrated Management initiative.
- In 2003, the department also committed \$50,000 toward a scientific research program that will help us understand the impact of seismic activities on marine mammals. This basic research will help reduce the scientific uncertainty that currently exists in this area and help scientists design programs to mitigate any potential negative impacts. In this fashion, responsible oil and gas exploration activities can proceed.
- The Department of Energy is also a participant in the Canadian Environmental Assessment Agency's Oil and Gas Issues Regulatory Subcommittee, which is looking at the requirements for environmental assessments in the offshore. The results of this process are expected to be reported to the federal government in the fall of 2003.
- Nova Scotia continues to be a leader in building a partnership to implement a national climate change plan. Our approach is one that promotes reductions in emissions while ensuring that no one region or industry bears an unreasonable burden for this national commitment. Department of Energy staff represents the province and serve as co-chairs at federal, provincial, and territorial working groups and deputy ministers' meetings, while the Minister served as Co-Chair of the Joint Ministers' Meetings of Energy and the Environment. Discussions with the federal government involve issues such as targeted measures, emission trading, and covenants for large industrial emitters as well as a partnership opportunities to assist in implementing climate change efforts in Nova Scotia.

- Nova Scotia currently builds more R-2000 homes per capita than any other region in the country and the Department of Energy was recently recognized by the Nova Scotia Homebuilder's Association for its continued support to building energy efficient homes through the R-2000 program.
- The Department of Environment and Labour is working with the Department of Energy, the Office of Economic Development, Nova Scotia Power, Nova Scotia Business Inc., and other industries to focus on reducing the emissions of mercury, sulphur, nitrogen, and ozone.
- The Canada/Nova Scotia Offshore Petroleum Board has updated the estimate of the commercial potential for Nova Scotia's offshore. Conservative estimates place our potential at 40 trillion cubic feet of natural gas. The Department continues to promote this potential around the world.

4.4 Core Business Function - promote economic activity and benefits:

The exploration for, as well as the development and use of energy is crucial to the economy of all modern societies. The Department conducts its promotional activities in a manner which helps to maximize the economic benefits flowing to Nova Scotians from such development and use. This is done in balance with high social and environmental standards.

2002-03 Accomplishments

- Nova Scotia continues to participate in local and international oil and gas conferences and trade shows, which provides us with an opportunity to promote our resources, our workforce, and our competitive edge. Our attendance at shows like the Offshore Technology Conference in Houston, Texas, the Deepwater Technology Conference in New Orleans, Louisiana, the CORE conference in Halifax, as well as shows and conferences in Calgary, St. John's and Norway are helping us showcase the many opportunities to invest in our growing industry.

- In November 2002, Nova Scotia was officially inducted as the newest international member and affiliate of the Energy Council, an organization of 10 United States oil-producing states. Nova Scotia joins Newfoundland and Labrador and Alberta as members of the Energy Council, which includes states such as Texas, Louisiana, and Alaska and the country of Venezuela. Membership in the Energy Council gives Nova Scotia another opportunity to promote our resources and learn from other energy-producing regions.
- The November 22, 2002 Atlantic Energy Roundtable also addressed economic benefits and how Nova Scotia can be better positioned to gain the benefits from new jobs and business opportunities that are associated with offshore projects. The department is an active participant in the collaborative follow-up process that is being established. A full report to the next roundtable in the fall of 2003 is expected on industrial opportunities.
- The energy strategy identified the need to increase Nova Scotia's capabilities and capacity in the area of engineering and metal fabrication. The department is working with the private sector and other government agencies to identify opportunities to increase capabilities, including the possible expansion and enhancement of publicly owned assets.
- The department continues to work with Regional Development Authorities, the Offshore/Onshore Technologies Association of Nova Scotia, and local operators on contracting strategies and joint ventures that help promote local products and services and attract new business.

4.5 Core Business Function - help to inform and educate Nova Scotians:

The Energy Department works to ensure that Nova Scotians are informed on energy issues that affect them and enable them to make informed energy decisions. The Department also has an important role to play in helping educate Nova Scotians on energy opportunities and options.

- The department created an extensive web site which provides a variety of information on energy issues in Nova Scotia. In addition to providing quarterly updates on exploration activity, the web site features an e-mail subscription service to provide interested parties with the latest energy information available from the department.
- Working with Clean Nova Scotia, the department supports home audit programs that help Nova Scotians find out ways to improve the energy efficiency in their homes and save money.
- The department and Clean Nova Scotia also work together with other partners to support Destination Conservation, a program teaching students to find ways to help their schools save energy, become more efficient, and reduce costs.
- The TRAX program, delivered by the Ecology Action Centre and supported by the department, among other partners, promotes transportation alternatives such as public transportation, car-pooling, cycling, walking, and workplace trip reduction.
- Our training program for students this past year brought 70 post-secondary students together with 40 employers, providing invaluable on-the-job work experience for co-op work terms and summer positions in the oil and gas industry.
- The Province of Nova Scotia, Encana, and the Nova Scotia Community College have helped establish the Offshore Operations Program at the Marconi Campus in Sydney. Students are now gaining a wide range of technical skills to prepare them for the job opportunities that exist offshore.
- World-class training taking place at the Nova Scotia Community College and the University College of Cape Breton is also providing opportunities to export our knowledge. In partnership with ExxonMobil Canada, these institutions have established a training program that will provide workers from Angola with the skills they need to work on discoveries being developed by Exxon Angola while Nova Scotia continues to build a reputation for expertise in offshore training.
- We're working with Skills Nova Scotia on a series of seminars to promote the energy sector as a career choice for high school students.
- We're supporting local businesses with an interest in serving the oil and gas industry with information seminars on adopting quality assurance and quality control standards that will help them compete for new contracts.

4.6 **Core Business Function - represent the Province in regulatory proceedings:**

The key regulators of the energy industry are either arm's length to the Provincial Government or report to other levels of government. The Energy Department appears before such regulators on behalf of the Province in order to ensure that interests of Nova Scotians are taken into account when regulatory decisions are being made.

- The Department has represented the interests of Nova Scotians at a number of regulatory proceedings with respect to gas distribution, Nova Scotia Power rates, Deep Panuke development and pipeline construction.

5.0 **Financial Results -**

- The Province of Nova Scotia's 2002/03 budget reflects that the Petroleum Directorate budget has increased from \$4,958,000 in fiscal 2001/02 to \$7,069,000 in fiscal year 2002/03. The 2002/03 budget contains all of the incremental money (approximately \$2,000,000), which has been designated for funding a new Energy Department.
- The incremental funding was provided specifically to address the Laurentian Sub Basin boundary dispute (\$500,000) and the implementation of the Energy Strategy (\$1,500,000 for resource updates, climate change, regulatory participation and offshore training).

6.0 **Performance Measures**

Due to the timing of the creation of the Department of Energy, specific measures were not identified. The Energy Strategy contains a variety of key action items and the Department's progress was reported to Nova Scotians in February 2003 (see attached report).